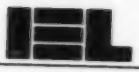
Industrial
Estates
Limited

The Nova Scotia
Crown Corporation
for the Development of
Secondary Industry



29

Annual Report
for the
fiscal year ended
March 31 1986

DIRECTORS

F.T. Barber
J.L. Bragg
F. Cosman
J.J. Grant
S.M. Hickey
N.S. MacNeil
G.C. McDade
K.A. Mader
R.W.M. Manuge
J.E.A. Nickerson
W.S. Robertson
W.L. Single
D.M. Smith
Hon. R.J. Thornhill
R.F. Weary

ADVISORY COUNCIL

Purdy Crawford
Lord David Lindsay
H. Gordon MacNeill
Malcolm McAlpine
C. Peter McColough
Sir David Nicolson
John A. Scrymgeour

OFFICERS

President ..... W.L. Single
Vice President ..... W.D. Ring
Secretary ..... S.M. Henman
Assistant Secretary ..... F.M. LeTourneau
Controller ..... A.B. Gray

AUDITORS

TOUCHE ROSS & CO.

REPRESENTATIVE OF THE PROVINCE OF NOVA SCOTIA

HONOURABLE R.J. THORNHILL

Minister of Development

June 20, 1986

Hon. Roland J. Thornhill
Minister of Development
Province of Nova Scotia
7th floor, World Trade Centre
1800 Argyle Street
Halifax, Nova Scotia

Dear Mr. Minister:

I am pleased to present, on behalf of the Board of Directors of Industrial Estates Limited, our 29th Annual Report including the audited financial statements for the year ended March 31, 1986.

During 1985, the Board of Directors approved financing for 9 projects totalling $6,361,910. These projects will create or maintain 300 jobs.

Among the projects approved was a loan to Etobicoke Meats Limited to establish a specialty meats processing plant in Amherst. Also signed was an agreement with Seamless Radiator Tubes to manufacture radiator tubing in Debert for the North American market.

Farnell Packaging Limited has proceeded with an expansion of their facility in Burnside. This expansion will allow the company to recover polyethylene scrap and increase its extruder capacity.

I am pleased to report that an agreement has been finalized to reactivate the former General Homes Systems Limited plant in Amherst. A new company, Casey Manufacturing Inc., will continue manufacturing mobile homes for distribution in the Maritimes. Many former employees have been re-hired, thus preserving both the jobs and technology in the Amherst area.

Also during the year, an agreement was reached to sell the former Reeves Modular Homes facility in Point Edward.

Over the past couple of years, we have noticed a decline in requests for financing for new projects and expansions. This is mainly due to the fact that many companies are still concentrating on recapturing markets and reducing their operating costs as a result of the earlier downturn in the economy. We have, however, played a significant role in helping many of our clients stay in business. Much of management's time has been spent in assisting companies through reorganizations, searches for equity investors, technical and mangement expertise, and acting as business advisors. We derive a great deal of satisfaction from this work because the employment and technology remain in the Province for the benefit of all Nova Scotians.

INDUSTRIAL PARKS AND MALLS

1985 saw the completion of the Stellarton Industrial Mall ($811,000), the start of the Woodside Technology Innovation Centre ($2,900,000) and major progress in the servicing of 37 acres in Woodside ($2,825,000) and of 49 acres in Atlantic Acres ($3,000,000).

Kentville's Annapolis Valley Industrial Park led the way among IEL's 13 industrial parks with sales of 24 acres to 10 companies; next were Bedford's Atlantic Acres with 11 acres (10 acres to The Halifax Herald Limited), Amherst with 8 acres and Windsor with 3.75. Sales also took place in the Bedford, Sackville, Debert and Woodside industrial parks.

IEL's seven industrial malls (Amherst, Debert, Eastern Shore, Kentville, Liverpool, Stellarton and Windsor) currently house 29 small companies producing a wide range of products including pharmaceuticals, knitwear, packaging materials, combustion monitoring devices, and confectionery.

The following is a comparison of the significant information in the financial statements between the years ended March 31, 1986 and 1985.

	1986	1985	INCREASE (DECREASE)
Total Investment in Industrial Development Projects	$101,493,843	$112,190,528	$(10,696,685)
Twenty Year Debentures issued to Province of Nova Scotia	81,227,007	89,719,248	(8,492,241)
Equity owned by Province of Nova Scotia	22,620,459	21,445,995	1,174,464
Income, including Industrial Parks Revenue	9,810,654	12,006,872	(2,196,218)
Interest Expense	8,658,324	10,770,791	(2,112,467)
Administrative Expenses	684,253	714,234	(29,981)
Industrial Park Expenses	878,110	818,245	59,865
Provisions for Losses on Doubtful Accounts, Investments and Unrecoverable Expenses on Foreclosed Investments	3,293,153	1,175,583	2,117,570
Deficit from Operations	3,703,186	1,471,981	2,231,205
Covered by cash grant from the Province of Nova Scotia	1,740,988	1,008,188	732,800
Increase in unfunded provision for losses	1,962,198	463,793	1,498,405

DIRECTORS AND STAFF

During the year, the Directors held 10 Board meetings. At the Annual Meeting in June, several changes occurred to our Board. After 12 years of dedicated service, Mr. Lloyd R. Shaw resigned. Other changes included Dr. J.D. McNiven, who was replaced by Mr. Norman MacNeil. Subsequent to year-end, Mr. F.T. Stanfield resigned as a Director. Our appreciation is extended to Messrs. Shaw, McNiven and Stanfield for their valuable contributions.

Also prior to year-end, Mr. A.B. Gray, C.A. was appointed Controller and an Officer of the company.

ACKNOWLEDGEMENTS

I wish to express my appreciation to the Directors, Officers and staff for their support during the past year. Appreciation is also extended to the Department of Development, as well as the Provincial Department of Finance and the Federal Department of Regional and Industrial Expansion for the co-operation and assistance we received.

OUTLOOK

At the Spring sitting of the Legislature, the Government passed a bill to enact the Nova Scotia Business Capital Corporation. This bill provides for the creation of a new corporation to assume the duties of the Resources Development Board, the Industrial Loans Board, the Venture Corporation Board and provides for the winding up of Industrial Estates Limited. This Act represents a major policy change whereby several Provincial financial lending agencies are consolidated into one.

With the Federal Government's establishment of the Atlantic Enterprise Program, which provides an 85 percent guarantee of loans and an interest subsidy of up to 6 percent, Nova Scotia may not have to provide financing for future industrial projects to the same extent as in the past. This, coupled with very attractive incentives for companies locating in Cape Breton, should have a positive and significant effect on employment opportunities in the Province.

Respectfully submitted on behalf of the Board,

W. Leslie Single, P.Eng.
President and Chief Executive Officer

SUMMARY OF FINANCIAL HIGHLIGHTS

	1986	1985	1984*	1983*	1982	1981
Investment in industrial development projects	$101,493,843	$112,190,528	$127,338,560	$140,413,303	$134,952,044	$139,408,252
Debentures issued to Province of Nova Scotia	81,227,007	89,719,248	107,918,720	125,692,711	123,974,990	132,051,410
Income, including industrial parks revenue	9,810,654	12,006,872	13,030,404	12,511,928	13,332,048	12,942,233
Interest expense	8,658,324	10,770,791	12,303,951	11,790,736	11,777,079	11,236,770
Operating expenses	1,562,363	1,532,479	1,356,311	1,322,331	2,185,948	2,267,411
Provision for losses on doubtful accounts and investments and unrecoverable expenses on foreclosed assets	3,293,153	1,175,583	8,821,132	2,235,325	645,921	816,845
Deficit from operations	3,703,186	1,471,981	9,450,990	2,836,464	1,276,900	1,378,793
Covered by: Cash grant from the Province of Nova Scotia	1,740,988	1,008,188	886,665	570,781	1,276,900	1,378,793
Unfunded Provision for losses	1,962,198	463,793	8,564,325	2,265,683	---	---

*Restated

AUDITORS' REPORT

The Shareholders
Industrial Estates Limited

We have examined the statement of financial position of Industrial Estates Limited as at March 31, 1986, and the statement of income for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and as shown by the books of the company, these financial statements present fairly the financial position of the company as at March 31, 1986, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants

Halifax, Nova Scotia
May 13, 1986

STATEMENT OF FINANCIAL POSITION
as at March 31

ASSETS	**1986**	**1985**
Cash and short-term investments	$2,455,268	$ 320,070
Accounts receivable and accrued interest	1,167,274	1,170,490
Furniture, leasehold improvements and equipment (Note 2a)	118,709	100,932
	3,741,251	1,591,492
Industrial Development Projects		
Industrial parks and buildings (Notes 2b and 4)	22,702,840	21,614,037
Leased plants (Schedule 2) (Note 2b)	13,252,978	13,824,264
Advances secured by mortgages, bonds and debentures (Schedule 2)	57,878,312	63,174,201
Shares of client companies (Note 2b)	2,000,000	2,150,075
Foreclosed investments (Note 2b)	5,659,713	11,427,951
	101,493,843	112,190,528
Provision for losses on Industrial Development Projects (Schedule 2) (Note 2b)	13,315,490	13,460,780
	88,178,353	98,729,748
	$ 91,919,604	$100,321,240
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued charges	$ 1,239,035	$ 345,566
Accounts payable - Province of Nova Scotia	29,858	33,585
Unexpended amounts pending completion of realization of foreclosed assets	59,244	70,647
Debentures payable - Province of Nova Scotia (Note 3)	81,227,007	89,719,248
Unfunded provision for losses on Industrial Development Projects (Note 2b)	(13,255,999)	(11,293,801)
Capital stock (Note 4)	22,620,459	21,445,995
	$ 91,919,604	$100,321,240

Commitments and Contingencies (Note 5)
Subsequent event (Note 6)

On behalf of the Board
G.C. McDade, Director
K.A. Mader, Director

STATEMENT OF INCOME
for the Year Ended March 31

	1986	1985
Income		
Interest, dividends and portion of rent applied to income	$ 8,932,544	$11,188,627
Industrial parks (Schedule 1)	878,110	818,245
	9,810,654	12,006,872
Expenses		
Administrative (Schedule 1)	684,253	714,234
Industrial parks (Schedule1)	878,110	818,245
Interest on debentures and promissory notes	8,658,324	10,770,791
Provision for doubtful accounts	1,455	200,755
Provision for losses on investments (Schedule 2) (Note 2b)	3,020,274	676,536
Unrecoverable expenses on foreclosed investments	271,424	298,292
	13,513,840	13,478,853
Deficiency for the year	$ 3,703,186	$ 1,471,981
Grant from Province of Nova Scotia	$1,740,988	$1,008,188
Increase in unfunded provision for losses on Industrial Development Projects (Note 2b)	1,962,198	463,793
	$ 3,703,186	$ 1,471,981

NOTES TO THE FINANCIAL STATEMENTS

March 31,1986

1. General Policy

The company's primary objective is the creation of employment opportunities through development of secondary manufacturing industry in the Province of Nova Scotia. The financing provided to clients is often in excess of the amounts which would be available through commercial financing sources.

2. Significant Accounting Policies

a) Furniture, Leasehold Improvements and Equipment

Furniture, leasehold improvements and equipment are valued at cost less accumulated depreciation. Depreciation is provided as follows:

Furniture, leasehold improvements and office equipment	- straight-line method, over three to ten years
Mobile equipment	- declincing-balance method, at a rate of 30% per annum

b) Industrial Development Projects

i) Industrial Parks and Buildings

As part of its long-term industrial development program, the company has acquired a number of industrial parks throughout the Province. These parks consist of land in various stages of development from unimproved to fully developed and serviced lots. The parks also include some buildings which are mainly used as incubator malls.

The buildings in the parks are carried at cost less depreciation calculated on the straight-line method over 20 years. At March 31, 1986, the net book value of park buildings was approximately $2,660,000.

Park lands are carried at cost of acquisition plus cost of improvements, less proceeds of disposals. Most administrative and carrying costs of parks are reimbursed by operating fees and the remainder are expensed as they are incurred. As the parks are held in connection with long-term development objectives, fluctuations in current market values are not recognized in the accounts.

During the year, the company made capital additions to Industrial Parks of approximately $1,250,000 (1985 - $315,000) that are expected to be reimbursed by the Government subsequent to the year-end. These monies, when received, will reduce the company's investment in Industrial Parks.

ii) Leased Plants

Leased plants are valued at net cost.

Depreciation has not been provided on buildings and equipment owned by the company and leased to tenants. Values have been reduced by application of a portion of rentals received to the option price at which tenants may acquire these properties. The portion of rentals so applied during the year was $571,286. At March 31, 1986, the accumulated balance of such reductions amounted to $11,766,524.

iii) Shares of Client Companies

Shares of client companies are stated at cost.

iv) Foreclosed Investments

Foreclosed investments include amounts invested, loaned or expended by the company in connection with plants where foreclosure action has been taken, and the company is in the process of realizing on its security.

v) Provision for Losses on Industrial Development Projects

The company considers that its investments in Industrial Development Projects are subject to a possible decline in value estimated to be $13,315,490 (1985 - $13,460,780). The company has requested and received from the Province of Nova Scotia, an undertaking that should a loss be incurred by Industrial Estates Limited on realization of its investments in Industrial Development Projects in excess of the difference between the reserve of $13,315,490 (1985 - $13,460,780) and the unfunded provision for losses on Industrial Development Projects of $13,255,999 (1985 - $11,293,801), the Province will reimburse such excess up to $13,255,999.

3. Debentures Payable - Province of Nova Scotia

Under the existing legislation, the company is permitted to borrow from the Province by means of the issue of twenty-year debentures. The total borrowings, less redemptions, may not exceed $400,000,000.

The debentures bear interest at rates varying from 7.5 percent to 15.04 percent per annum, and are to be redeemed during the period 1986 to 2006. Present arrangements with the Province of Nova Scotia provide for redemptions of the existing debentures at the rate of $9,085,875 a year for the next five years.

4. Capital Stock

			1986	1985
Authorized:	100	common shares of $100 par value each		
	5,000,000	Class "A", 12.75% preference shares, non-cumulative and redeemable, par value $1		
	19,990,000	Class "B", 8% preference shares, non-cumulative and redeemable, par value $1		
Issued:	87	common shares	$ 8,700	$ 8,700
	3,805,000	Class "A" preference shares	3,805,000	2,805,000
	18,806,759	Class "B" preference shares	18,806,759	18,632,295
			$22,620,459	$21,445,995

During the year, the company issued 174,464 Class B preference shares to the Province of Nova Scotia as consideration for expenditures on behalf of the company in connection with industrial parks. The company also issued 1,000,000 Class A preference shares to the Province as consideration for investments made by the company in Income Bonds of a client company.

Included in the commitments set out in Note 5 is an amount of approximately $5,200,000 representing additions to industrial parks. It is anticipated that these commitments will be settled by the issuance of additional preferred shares to the Province of Nova Scotia.

5. Commitments and Contingencies

a) The company is committed to investments in Industrial Development Projects of approximately $10,835,000 in addition to those recorded in the financial statements.

b) A former client of the company has taken action against Industrial Estates Limited and others alleging fraudulent action by Industrial Estates Limited and its agents in connection with foreclosure action taken by Industrial Estates and the subsequent sale of the plant to another party. In addition to asking for a declaration that all of the assets be

reconveyed to the plaintiff, the plaintiff also seeks an award of general, exemplary, punitive damages and costs. No dollar amount is set out in the pleadings filed by the plaintiff. Industrial Estates Limited has denied the allegations, has taken steps to oppose the action, and has made no provision for any liability in this matter as it does not regard the claim as having any validity. The action has been dismissed for lack of prosecution. The dismissal order is subject to an appeal period which expires May 30, 1986.

6. Subsequent Event

A bill (#78) has been introduced into the Legislature which provides that Industrial Estates Limited may be wound up and its operations carried on by a new body, the Nova Scotia Business Capital Corporation. At the date of release of these financial statements, this bill had passed third reading but had not been proclaimed.

SCHEDULE 1

INDUSTRIAL PARKS REVENUE AND EXPENSES
for the year Ended March 31

	1986	1985
Revenue		
Rental revenue	$ 634,098	$ 526,433
Operating fees	244,012	291,812
	$ 878,110	$ 818,245
Expenses		
Property operating	$ 365,440	$ 345,548
Salaries, wages and benefits	264,820	252,449
Depreciation	185,533	161,498
Travel	14,517	11,250
Administrative overhead	47,800	47,500
	$ 878,110	$ 818,245

ANALYSIS OF ADMINISTRATIVE EXPENSES
for the Year Ended March 31

	1986	1985
Salaries and employee benefits	$ 422,210	$ 445,309
Rent	79,996	79,664
Travel	36,203	39,059
Advertising and promotion	4,194	7,440
Telephone and telegraph	22,909	27,655
Directors' fees and expenses	28,591	22,037
General office and miscellaneous	8,290	10,356
Printing, stationery and postage	12,713	12,410
Insurance and taxes	18,629	14,952
Legal and audit	15,156	16,482
Conferences, memberships and publications	11,577	11,196
Consultants' fees	16,585	20,879
Depreciation - furniture, fixtures and improvements	7,200	6,795
	$ 684,253	$ 714,234

SCHEDULE 2

CUMULATIVE ANALYSIS OF COST OF LEASED PLANTS for the Year Ended March 31

	1986	1985
Net cost of leased plants		
Balance at beginning of year	$25,019,502	$29,233,612
Investments	—	799,593
	25,019,502	30,033,205
Disposals	—	5,013,703
Balance at end of year	25,019,502	25,019,502
Rentals applied in reduction of cost		
Balance at beginning of year	11,195,238	10,125,064
Rentals applied to reduce cost	571,286	1,070,174
Balance at end of year	11,766,524	11,195,238
Net cost after application of rental reductions	$13,252,978	$13,824,264

ANALYSIS OF ADVANCES SECURED BY MORTGAGES, BONDS AND DEBENTURES for the Year Ended March 31

Balance at beginning of year	$63,174,201	$78,990,123
Investments during year	3,503,983	4,604,081
Capitalized interest	347,338	679,053
	3,851,321	5,283,134
Written-off during year	153,593	—
Transfers to foreclosed investments	482,486	6,592,370
Repayment during year	8,511,131	14,506,686
	9,147,210	21,099,056
Balance at end of year	$57,878,312	$63,174,201

ANALYSIS OF PROVISION FOR LOSSES ON INDUSTRIAL DEVELOPMENT PROJECTS for the Year Ended March 31

Balance at beginning of year	$13,460,780	$13,503,600
Increase in provision during year	3,020,274	676,536
	16,481,054	14,180,136
Net amounts written-off	3,165,564	719,356
Balance at end of year (Note 2b)	$13,315,490	$13,460,780